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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 7, 1998

APPLICATION OF

THE POTOMAC EDISON COMPANY,
D/B/A ALLEGHENY POWER

CASE NO. PUE980234

For an Annual Informational Filing

ORDER GRANTING MOTION TO
ACCEPT AGREEMENT OF
STIPULATION AND SETTLEMENT

In a Motion filed on August 7, 1998, the Commission Staff, by counsel, requested that the Commission accept the proposed Agreement of Stipulation and Settlement ("the Agreement") attached thereto. Staff represented that it was authorized to state that the Company wished to join in its Motion.

In support of its Motion, Staff represented that the Agreement is consistent with the recommendations detailed in a Staff Report also filed on August 7, 1998. In its Report, Staff noted that The Potomac Edison Company, d/b/a Allegheny Power ("Allegheny" or "the Company") proposed to reduce its Virginia jurisdictional rates by \$2.5 million effective for service rendered on and after September 1, 1998, and that the \$2.5 million reduction in base rates, in conjunction with the write-off of approximately \$500,000 in Virginia jurisdictional unamortized losses on reacquired debt will bring Allegheny's

return on equity within its currently authorized return on equity range.

NOW THE COMMISSION, having considered the Company's application, Staff's Report, and August 7, 1998 Motion, is of the opinion and finds that the terms of the Agreement attached to that Motion are in the public interest.

Accordingly, IT IS ORDERED THAT:

(1) Allegheny shall reduce its base rates in Virginia by \$2.5 million annually, effective for service rendered on and after September 1, 1998.

(2) Allegheny has recovered its remaining Virginia jurisdictional retail organizational restructuring (re-engineering) costs, and such costs shall no longer be recognized for future ratemaking purposes.

(3) Allegheny shall write off a Virginia jurisdictional level of unamortized losses on reacquired debt such that after the write-off of this regulatory asset and the \$2.5 million reduction in base rates, the resulting return on equity for the Company's Virginia jurisdictional operations will be 11.40% for the twelve months ending March 31, 1998.

(4) Allegheny shall file in this docket by no later than March 31, 1999, (i) a complete Annual Informational Filing ("AIF") conforming to the requirements of the Rules Governing Utility Rate Increase Applications and Annual Informational

Filings adopted in Case No. PUE850022, using as its test year the twelve months ended December 31, 1998, and (ii) an earnings test for the twelve months ending December 31, 1998.

(5) If the AIF to be filed on March 31, 1999, shows Allegheny to be earning on a fully adjusted basis at a level for its Virginia retail jurisdictional operations above the Company's currently authorized return on equity range of 11.0% to 12.0%, the Company's Virginia base retail revenues shall be considered interim and subject to refund for service rendered on and after April 1, 1999.

(6) The decrease in the Company's annual revenues shall be distributed among Allegheny's rate schedules as provided on Exhibit 3 to the Agreement of Stipulation and Settlement.

(7) This docket shall remain open to receive Allegheny's March 31, 1999 AIF and supporting documents.